

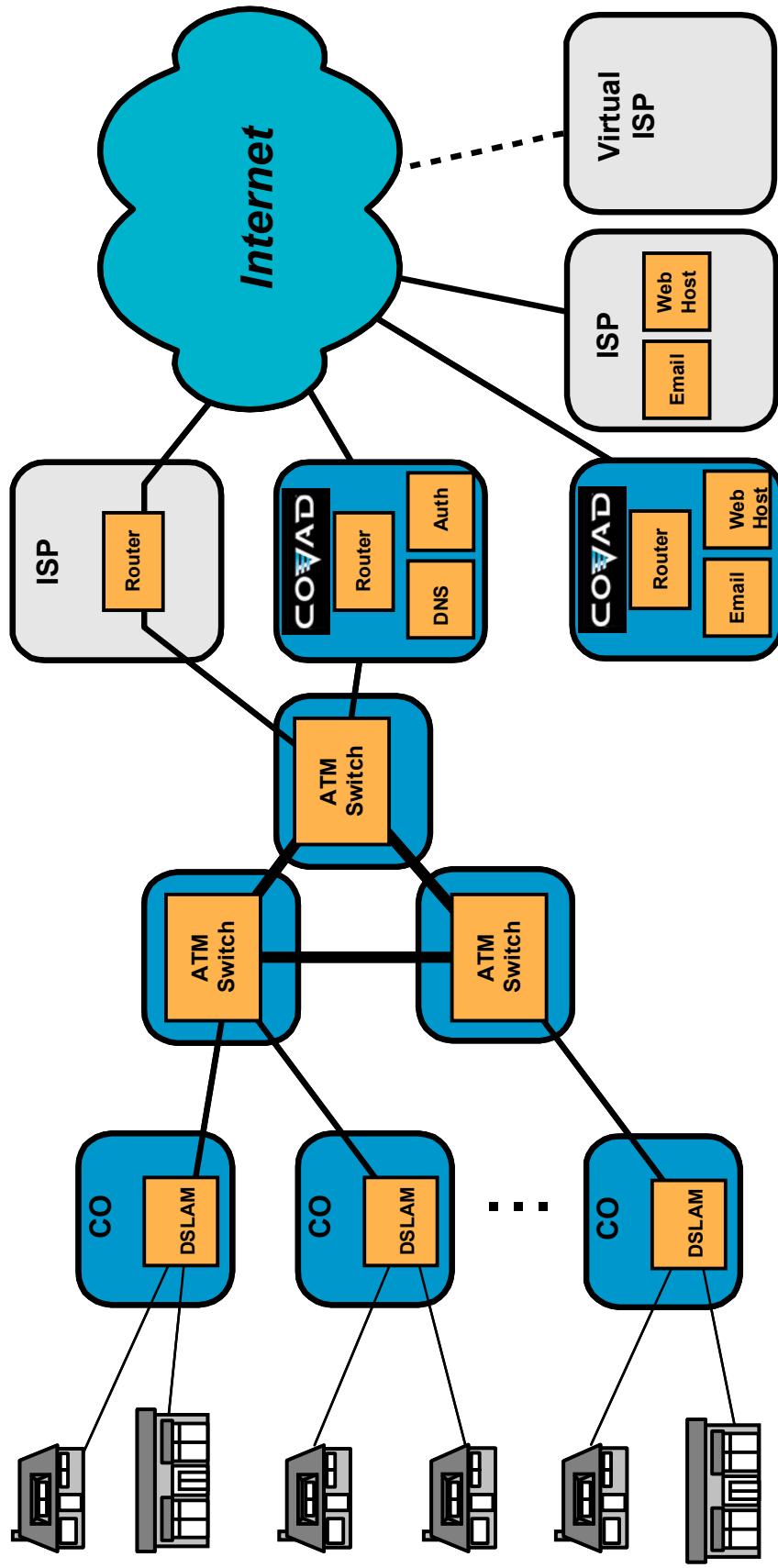


FCC Presentation
10/04

Business Update

Covad Facilities-Based Voice and Data Network

- Covad has invested **hundreds of millions of dollars** in its facilities-based network. Covad continues to invest:
 - Purchase of VoIP provider for more than \$40 million in 1Q '04
 - \$125 million raised in 1Q '04 to help fund VoIP rollout
 - Expansion into 200 additional central offices in 2004
- **Layer 2 Network Architecture**
 - Over 120 ATM switches and over 2000 DSLAMs
 - 57 million homes and businesses passed in 44 states
- **Layer 3 Network Architecture**
 - DSL+IP Point-of-Presence (POP) equipment
 - 17 POPs nationwide collocated with Level 3
- **Voice Service Architecture**
 - VoIP services combine Covad facilities-based broadband network with VoIP assets.
 - Additional incremental investments expected (softswitches, media gateways, BRAS upgrades, ATM backbone expansion, DSLAM upgrades, network monitoring equipment).



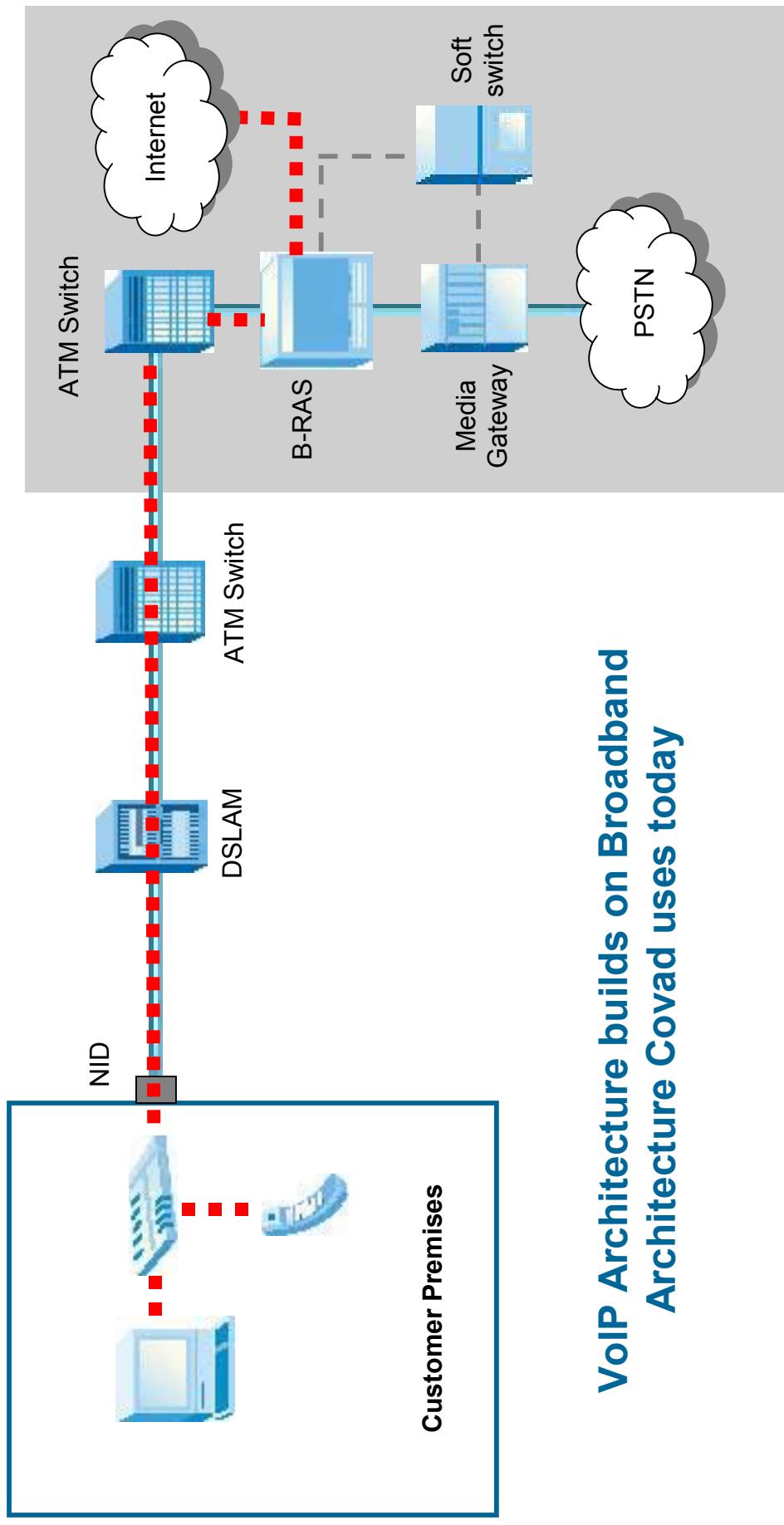
- **Voice Optimized Access**

- Modifies existing DSL services to provide an access line for VoIP delivery.
- Quality of Service guarantees and Service Level Agreements for voice enabled via management of last mile transmission facilities.

- **Full Suite of VoIP Services**

- Covad serves SME and Enterprise businesses.
 - PBXi product offers migration from legacy PBX to VoIP
 - vPBX product offers complete hosted-PBX VoIP solution
- Covad plans to expand VoIP service into consumer and SOHO segments across nationwide footprint.
- Enhanced Features – “Dashboard” Web interface, unified visual voice and fax mail, follow-me calling, Outlook integration, conferencing, Web collaboration
- POTS features – LNP, 911, directory assistance

COVAD Covad VoIP Service Architecture



Covad® The Road Ahead

- **Covad's long-term prospects appear promising.**
 1. Line-splitting bundles with UNE-P voice
 2. Migration to voice/data bundles using VoIP
 3. Participation in Wi-Max Forum
- **Improving financial picture.**
 - \$57 million SBC debt paid off.
 - \$12.5 million EBIDTA profit in 2Q '04.
 - \$2.7 million positive cash flow for 2Q '04.
- **BUT significant short-term obstacles remain.**
 - Line-sharing phased out this month, without line-splitting as long-term alternative.
 - TRO leaves Covad without hybrid loop access.
 - Bells continue to chip away at T-1 loop access through FCC proceedings.

FCC Action

Line Sharing Negotiations with Bells

- Since Feb. '03 Triennial decision, Covad has pursued negotiations aggressively with all four Bell companies.
- In April '04, **Covad and Qwest** signed a 3-year deal.
 - Agreement sets \$5 MRC and \$35 NRC for all line sharing charges (HFPL, OSS, conditioning, and installation) based on expected region-wide line volumes.
- In Sept '04, Covad signed short term agreements with VZ and SBC that would extend linesharing until January '05 and September, '05 respectively.
- **Still needs long term agreements with FCC safe harbor rules.**
 - Covad needs assurance of FCC rules if Bells fail to agree to long term commercial agreements.
 - Covad wants to sit at the negotiating table with the Bells and hammer out deals resolving line sharing for good.
- **FCC should make it clear that linesharing will be reevaluated in the USTA II NPRM.**

BellSouth FTTC Petition

- **Mass Market “Relief”.** BellSouth seeks exemption from unbundling mass market Fiber-to-the-Premises loops.
 - BellSouth argues for an incentive to deploy fiber facilities delivering triple play of voice, video and data services to mass market consumers in MDUs.
- **Not Enterprise “Relief”.** FCC shouldn’t inadvertently relieve Bells of enterprise UNE loop obligations.
 - Residential customers don’t buy T1 loops costing hundreds of dollars per month.
- **Narrow clarification** would remain consistent with TRO.
 1. Any unbundling exemptions adopted in clarification should be limited to greenfield, “new-build” scenarios.
 2. FCC should not reinstate “no facilities” policies through so-called clarification of packet-TDM distinction.
 - As demonstrated in Covad 6/2/04 technical ex parte, with the exception of Gigabit Ethernet, almost all existing loop facilities contain underlying TDM transmission.

Bell 271 Forbearance Petitions

- The BOC petitions simply collapse sections 251 and 271 analysis into one – they argue that if access is eliminated under 251, it must be eliminated under 271 automatically.
 - But the Commission held, and the D.C. Circuit affirmed, that 251 and 271 access obligations are different.
- The Commission's 251 analysis found that CLECs ARE impaired from competing without access to existing broadband-capable loops.
- **Legacy Loops Should Not be Inadvertently Included.**
The Commission should be clear that any forbearance determinations apply solely to fiber to the home loops.
 - Line shared loops are not "broadband" loops, but simply legacy copper loop facilities.
 - The Commission should be explicit that any forbearance it grants does not apply to line shared loops, which will be revisited in the *USTA II NPRM*.

- Commission needs to revisit all basic unbundling determinations, not just UNES vacated by *USTA II*
 - Legacy loop access critical to voice (VOIP) and broadband competition
 - Voice/Broadband distinction undermined by VOIP
 - Loops and transport critical